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DEPT PASS USTR FOR EEISSENSTAT
COMMERCE FOR ITA/MAC/MSIELGELMAN

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TAGS: ETRD EIND ES
SUBJECT: MINISTER OF ECONOMY SEEKS U.S. HELP TO SOLVE CAFTA IMPLEMENTATION PROBLEMS IN APPAREL SECTOR

REF: GUATEMALA 419

¶1. (U) Minister of Economy Yolanda de Gavidia appealed to Embassy on March 1 for assistance in resolving problems in the textile sector related to staggered CAFTA implementation, well laid out in reftel. De Gavidia claimed that U.S. buyers were preparing to suspend orders from Salvadoran factories, moving them to Guatemala and Honduras (which can continue to export duty-free pending CAFTA entry into force for their countries) and thereby putting over 7,000 jobs and the continued operation of 17 factories at risk. The Minister said that a clear message was needed from the U.S. that Salvadoran exports would receive CBTPA benefits.

¶2. (SBU) Embassy contact at Fruit of the Loom told econcouns in a March 2 telcon that El Salvador would ask the USG to extend CBTPA benefits, although he acknowledged that this would need U.S. legislative action; if that were not possible, El Salvador would seek retroactivity of CAFTA benefits for the time that Honduras delays getting into CAFTA. This official said that current conditions would cost Fruit of the Loom a million dollars per week in additional duties and transportation/logistics costs; he said that approximately half of the Salvadoran production was made from fabric that comes from Honduras. Senior Fruit of the Loom executives are currently in El Salvador; the company is working closely with the Ministry of Economy and is hopeful that ongoing MinEc consultations with USTR will result in a solution.

¶3. (U) On a separate matter related to CAFTA implementation, the Fruit of the Loom executive reported that between 50 and 60 containers of exports from El Salvador are held up a the Port of New Orleans awaiting clearance through U.S. Customs, which appears to be unfamiliar with new CAFTA customs documentation and unable to process the goods through.
¶4. (SBU) Comment: Post understands the economic and political difficulty presented for El Salvador if the cost of textile exports increases or if contracts move to other countries in the region. The GOES was aware of the risks to the textile sector created by staggered implementation, however; our DCM conveyed this personally to President Saca in December, yet Saca chose to push for entry into force as soon as possible. More recently, GOES trade and investment officials had confirmed to Econcouns that the textile industry in El Salvador was informed of transition issues. In response to our urging, the GOES has told us that it is pushing Guatemala and Honduras on CAFTA preparations to try to minimize the impact of staggered entry into force.
Barclay